

## Prepaid Legal Services may very well be an implosion waiting to happen?

This is a recast of my first PPD Actionable Intelligence Note issued to subscribers. I was contacted by Barry Minkow, of [Fraud Discovery Institute](#) to investigate what he considers to be a Ponzi scheme at PPD. It appears his allegations have checked out for the most part, and we are just wrapping up our independent investigation. It also appears as if other short sellers have attempted to short this company, but have done so unsuccessfully. As I see it, their metrics are deteriorating rapidly. See <http://www.ponzipluspyramidequalsprepaid.com/> for Mr. Minkow's take on Prepaid Legal. For those who are not familiar with Mr. Minkow, I [suggest you look into his background](#), he knows his way around fraud. *The Table of Contents below is hyperlinked for you convenience in Adobe Acrobat*

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## Differentiating between a Ponzi Scheme and a Multi-level Pyramid Scheme

Ponzi Scheme (from Wikipedia): A **Ponzi scheme** is a [fraudulent investment](#) operation that pays returns to investors from their own money or money paid by subsequent investors rather than from any actual profit earned. This is exactly [what is being done to PPD's shareholders](#). The term "Ponzi scheme" is used primarily in the United States, while other English-speaking countries do not distinguish colloquially between this scheme and [pyramid schemes](#).<sup>[1]</sup>

The Ponzi scheme usually offers abnormally high short-term returns in order to entice new investors. The perpetuation of the high returns that a Ponzi scheme advertises and pays requires an ever-increasing flow of money from investors in order to keep the scheme going. In this case the investors are naïve shareholders equity investors who are allegedly protected by the SEC – an SEC that appears to be asleep at the wheel again, a la Bernie Madoff and Mr. Stanford..

The system is destined to collapse because the earnings, if any, are less than the payments. Usually, the scheme is interrupted by legal authorities before it collapses because a Ponzi scheme is suspected or because the promoter is selling unregistered securities. As more investors become involved, the likelihood of the scheme coming to the attention of authorities increases.

Knowingly entering a Ponzi scheme, even at the last round of the scheme, can be [rational](#) in the economic sense if a government will likely bail out those participating in the Ponzi scheme<sup>[3]</sup> (ex. The US and European banking system).

### What is not a Ponzi scheme

- A [multilevel pyramid scheme](#) is a form of fraud similar in some ways to a Ponzi scheme, relying as it does on a disbelief in financial reality, including the hope of an extremely high rate of return. However, several characteristics distinguish these schemes from Ponzi schemes:
  - In a Ponzi scheme, the schemer acts as a "hub" for the victims, interacting with all of them directly (**this the relationship between PPD and its shareholders**). In a multilevel scheme, those who recruit additional participants benefit directly. (In fact, failure to recruit typically means *no* investment return.) (**this the relationship between PPD and members and associates see [Endnote number 2 from Professor Fine](#)**). Thus, it is our opinion that PPD is both a Ponzi scheme and a multilevel pyramid scheme!
  - A Ponzi scheme claims to rely on some esoteric investment approach (insider connections, etc.) and often attracts well-to-do investors (such as equity investors); whereas multilevel schemes explicitly claim that *new money* will be the source of payout for the initial investments (*as in the members/associates/salespeople of PPD*).
  - A multilevel scheme is bound to collapse a lot faster because it requires exponential increases in participants to sustain it. By contrast, Ponzi schemes

can survive simply by persuading most existing participants to "reinvest" their money, with a relatively small number of new participants. *Both of these can be found to be true in the case of PPD!*

- A [bubble](#). A bubble relies on suspension of disbelief and an expectation of large profits, but it is not the same as a Ponzi scheme. A bubble involves ever-rising (and unsustainable) prices in an open market (be that shares of a stock, housing prices, the price of [tulip bulbs](#), or anything else). As long as buyers are willing to pay ever-increasing prices, sellers can get out with a profit, and there doesn't need to be a schemer behind a bubble. (In fact, a bubble can arise without any fraud at all - for example, housing prices in a local market that rise sharply but eventually drop sharply because of overbuilding.) Bubbles are often said to be based on the "[greater fool theory](#)". Although, according to the [Austrian Business Cycle Theory](#), bubbles are caused by expanding the [money supply](#) beyond what genuine capital investment supports, and in this case would qualify as a Ponzi scheme, with expanded credit taking the place of an expanded pool of investors. PPD's management and/or board has authorized the company to purchase significant shares, at the same time that management has been selling significant shares into the market. As the definition stated, The PPD share buyback plan seems to us to "be based on the [greater fool theory](#)".
- The **greater fool theory** (sometimes the **bigger fool theory**, also called **survivor investing**) is the belief held by one who makes a questionable [investment](#) (*in this case we are alleging this to be PPD management*), with the assumption that they will be able to sell it later to "a bigger fool" (*potentially PPD's public shareholders*); in other words, buying something not because you believe that it is worth the price, but rather because you believe that you will be able to sell it to someone else for an even better [price](#). This belief can be reinforced by the stock buyback mandates of the PPD.

Some consider it a valid method of making money in the [stock market](#), particularly [momentum investors](#); however, [fundamental investors](#) (such as myself and the BoomBustBlog team) believe that market participants eventually realize that the price level is too outrageous (too high or too low) and the [speculative bubble](#) pops. The greater fool theory relies on market optimism and market momentum concerning a particular stock, an industry, or the market as a whole.

- Legitimate [Multi-level marketing](#) programs

## Summary

### Pre-Paid Legal Services, Inc. (PPD)

PPD, a public company and a company that we view as a possible pyramid and ponzi scheme has apparently lost money for a number of households in the US and Canada, and seems to be losing steam after years of what some may call deceit. The company's business model (network marketing) or multi-level marketing, (ie MLM) is such that it distributes money to members collected from membership and renewal fees. Such companies continue to flourish as long as there are new members joining the business as fast as cash continues to flow out of the business. Though the new members do not benefit materially or even tend to lose money due to the difficulties in building sustainable revenue streams (in my opinion, a pyramid scheme as defined by Wikipedia), the top executives continue to enjoy significant economic success, in no small part through selling stock into a management authorized corporate share buyback plan (a ponzi scheme, both in my opinion and as defined by Wikipedia). PPD's top executives have a pattern of repetitive behavior over the years, apparently contributing to the elevation of share prices – apart and different from elevating the equity value, enterprise value, and economic value of the company itself and the that of the shareholders. In the last two years, the top executives continued to exit the company, selling 556,522 shares, while the management has recourse via the company's share buyback program, apparently creating enough demand to push stock prices to, what is in my opinion, artificially elevated levels. During the quarter ended December 2008, the company bought back 220,766 shares, again, apparently in an effort to maintain higher share prices. However, as all good things come to an end, the apparent pyramid scheme disguised as a legitimate MLM plan fails as cash flow shrinks as a result of the management failing to lure enough new members while old members do not renew their memberships. PPD has seen its new membership growth decline while the members leaving the business has increased manifold.

### Key metrics shows decline

The key indicators for the revenues of the company depend on the active memberships (of sales associates) and the average monthly fees. The active membership decreased by 16,648 or 1.1% to 1,559,154 in 2008. This has led to the reduction in the cash inflow for the company. Further, the number of members who left the organization to date is around 6.6 million, which reduces the probability of further growth. PPD has seen its target market shrink over the years. The company has an uncanny revenue stream of around US\$109 million in each of the last four quarters, which looks highly unrealistic. Further, PPD maintained the revenue flow in spite of the fall in the new recruitments largely due to the increase in the enrollment fees and the annual renewable fees. The average enrollment fees for new members increased by 26% to US\$72 in 2008 from US\$57 in 2007 and US\$50 in 2006. This has helped the company smooth over the drop in new enrollment in 2008, while simultaneously increasing challenges for 2009. The total new membership sales declined significantly by 10% to 552,327 in 2008 while the new associates' sales dropped by 17.8% to 122,255 in 2008. Furthermore, 139,598 associates exited the

company during the year. The associates who made more than ten sales fell 23% to 6,996 in 2008 from 9,047 in 2007. This shows that the top line is set to fall in the coming quarters. Further, the associates making at least one sale also fell by 9% to 81,731, highlighting the difficult business scenario for the company.

#### **Debt repayment deferred**

The company has US\$59.7 million of total debt outstanding, which could have been repaid instead of funding the share repurchase. With declining operating metrics, one is hard pressed not to assume that the share buybacks were more for the benefit of share selling upper management more so than for the benefit of the shareholders and the interests of the company as an ongoing concern. Furthermore, 38% or US\$22.4 million of the total outstanding debt accrue in less than one year, which puts additional pressure on the company.



## From Fraud Discovery Institute

It is obvious that PPD has indeed reached market peak in its other “product”, the sales of an “income opportunity” as a PPD sales “Associate.” That market is declining and the claim that new recruits can find many others to recruit and sell to is now being revealed as an obvious sham, despite PPD’s deceptive and exploitative recruitment and product hype.

This market saturation is demonstrated not only in cumulative numbers of Associates that are unsustainable in the future, but in current *rates of decline* in all important measures including:

- Total sales
- Total sales force
- Recruitment rate of sales associates
- Dropout/replacement rates of sales associates
- Sales productivity rates of sales associates,

### From the 2008 10K:

Market Saturation Measure	2007	2008	Percentage Change
Total Members	1,575,802	1,559,154	- 1%
New Memberships Sold during Year	612,096	552,327	- 10%
Total Sales Associates	442,361	425,018	- 4%
New Associates Recruited during Year	148,802	122,255	- 18%
Associates that Made at least One Sale	90,123	81,731	- 9%
% of Associates that Made at least One Sale	20.37%	19.23%	- 1.14
Associates that Made at least Ten Sales	9,047	6,996	- 23%
% of Associates that Made at least Ten Sales	2.045%	1.64%	- 0.41%

- Not only does PPD show an 18% decline in its most important measure for overall growth – the rate of enrollment of multi-level marketing salespeople – but in 2008 more salespeople actually quit the company than were recruited during the year.
  - √ PPD began 2008 with 442,361 Associates and recruited another 122,255 during the year for a total of 564,616 sales people. Yet at year end, it reported only 425,018 still enrolled.

- √ 139,598 quit during the year. That is 17,343 more than PPD was able to recruit as replacements.
- Not only is the total number of PPD sales people making any sales dropping, but also the *percentage* of the total number salespeople making sales – at least one sale or 10 or more sales – is also declining. PPD has a declining number of sales people and a declining percentage of this smaller force is making sales.

These declines are part of an ongoing trend. As the following chart shows, PPD recruitment rates of Associates – its most important indicator of sales potential – has been in long-term decline, turning to losses during last three years running, well before the Recession.

### PPD's March to Saturation in North America

Year	Associates (Salespeople) Recruited During the Year	Active Associates at end of year	Annual Growth Rate	Total Associates 12/31/95 to 12/31/2008 (total recruited + those already enrolled at 12/31/95)
1995		78,281		
1996	69,789	110,350	41%	
1997	58,121	123,470	12%	
1998	75,737	159,268	29%	
1999	92,644	204,137	28%	
2000	97,617	242,085	19%	
2001	122,192	286,488	18%	
2002	155,663	341,116	19%	
2003	108,557	329,600	-3%	
2004	107,552	343,696	4%	
2005	242,223	468,365	36%	
2006	172,999	444,499	-5%	
2007	148,802	442,361	-0.5%	
2008	122,255	425,018	-4%	
<b>Total</b>	<b>1,574,151</b>			<b>1,652,432</b>

Unlike other companies that market legal insurance, PPD has no sustainable customer base or sales force. PPD Attrition rates are unique and extraordinary for this industry. Additionally, its “income opportunity” produces an average income equivalent to less than a few hours work a week at minimum wage.

The “income opportunity” that PPD advertises depends on the recruitment of many others sales people since the average PPD sales person has only 3 customers!

A glaring indicator of decline is that the company's insider stock sell off. There has been no insider purchase of PPL stock within the last year. "Insider Sentiment" for PPL is rated as "Negative" by online research services, basing the rating on the huge sell off of their shares.

Another indicator of decline is the milking of remaining customers with price increases. PPL reports that it raised the fees to become an "Associate" from \$57 to \$72 in 2008. This increase that was imposed on new and renewing recruits raised nearly \$2 million.

The Associates, whose entry fees to join the PPD pyramid were raised 26%, account for a critical portion of PPD's total revenue, not just from their sales, but from *their own purchases and payments of fees*. The Associates account for 27% of all "Members." To qualify for commissions a PPD Associate must purchase a PPD "policy", in addition to paying the recently increased fee to join. Then there are additional training fees to qualify to sell other PPD products.

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## Part 1 of Our Analysis: the Verification of FDI's Allegations

We reviewed the report above and the following are some of the key points that came out from this exercise:

### A) Increase in revenue driven by increasing membership fees

The key indicators for the revenues of the company depend on the active memberships and average monthly fees. The total revenue rose marginally by 1.6% to US\$464.5 million in 2008. The increased total revenue was driven mainly by increase in membership fees by 2.2% while the associate services revenue declined during the period. The membership fees depend on the total active memberships and the monthly fees of the company. Though the active membership declined 1.1%, the increase in the membership revenues forming 94.0% of the total revenue in 2008, led to the increase in top line. This was due to the increase in the average enrollment fees for new members by 26% to US\$72 in 2008 from US\$57 in 2007 and US\$50 in 2006. The sharp increase in the new membership fees had a negative impact on the new members which declined by 10% to 552,327 in 2008 while the number of new associates declined by 17.8% to 122,255 in 2008. Furthermore, 139,598 associates exited the company during the year indicating that though the revenue for the company increased marginally, ***major growth indicators such as the new membership fell during the year and the growth was driven by increased membership fees, which may not sustain, going forward. Also, the key metric of identifying growth trend – associates doing a minimum number of sales in a given time period – has started deteriorating indicating possibilities of tough times ahead. The associates who made more than ten sales fell 23% to 6,996 in 2008 from 9,047 in 2007 while the associates making at least one sale also fell by 9% to 81,731, highlighting the difficult business scenario.***

### B) Growth in net income driven by fall in associate services and direct marketing expenses

The net income jumped 17.5% to US\$60.1 million in 2008 from US\$51.2 million in 2007. This was driven by the increase in the total revenue by 1.6% and reduction of total expenses by 1.5%. The commission expenses forming around 27.3% of the total revenue fell 2.9% in 2008. This was driven by the unattractive commission schedule which makes it difficult to avail these commissions. The higher difficulty level for attaining the associate commission has withdrawn the interest of the old members as total membership declines. The associate services and direct marketing expenses fell a significant 18.3% in 2008, which added to the increase in the net income.

### C) Aggressive share buyback led to the increase in EPS

PPD has followed aggressive share repurchase in the last few years which has benefitted the EPS growth. In 2008, the company repurchased shares worth US\$44.7 million. This contributed largely to the sharp jump in the EPS growth. In 4Q 08, the EPS grew by 36%, while 9% was contributed by the share repurchase during the year.

**D) Debt repayment deferred**

The company has US\$59.7 million of total debt outstanding, which could have been repaid instead of share repurchase. However, the management chose to show rosy picture of the financials rather than repaying the debt. Furthermore, 38% or US\$22.4 million of the total outstanding debt accrue in less than one year, which could put additional pressure on the company.



## Part 2 of Our Analysis: The Fundamentals

In an informal agreement with the Fraud Discovery Institute's suspicion, this indeed looks like a Ponzi scheme. Based on our growth projections, which are quite conservative, this company has been, and is currently on a trajectory to continue, destroying value. As mentioned earlier, the key growth drivers have been growth in the number of members and associates and the amount of membership fees the company charges. Given the current situation and the calculations available from fraud specialists<sup>i</sup> who have examined the company and state that the number of associates declined by over 20% in the first nine months of 2008, our modeled assumption of a 10% is highly optimistic, yet the calculated resultant fall in the aforementioned value drivers reduces the company's fair value significantly regardless. In fact, if these variables were to fall by anything in the region of 20%, the company risks running out of business as there will be no money left to support the operations. We have seen nothing to cause us to believe that aforementioned fraud specialist's assumptions and calculations are erroneous and/or unrealistic. In addition, we have come across a quantitative analysis by a mathematician<sup>ii</sup> who states unequivocally that the ability for the members/associates/sales people to make money on the lower end is near impossible, hence the rapidly increasing attrition rate is a foregone conclusion. For the sake of conservatism, we have not implemented his findings in the model (although they are included via excerpt in the end notes), yet we have come across no reason to believe that the findings are anything less than plausible and realistic.

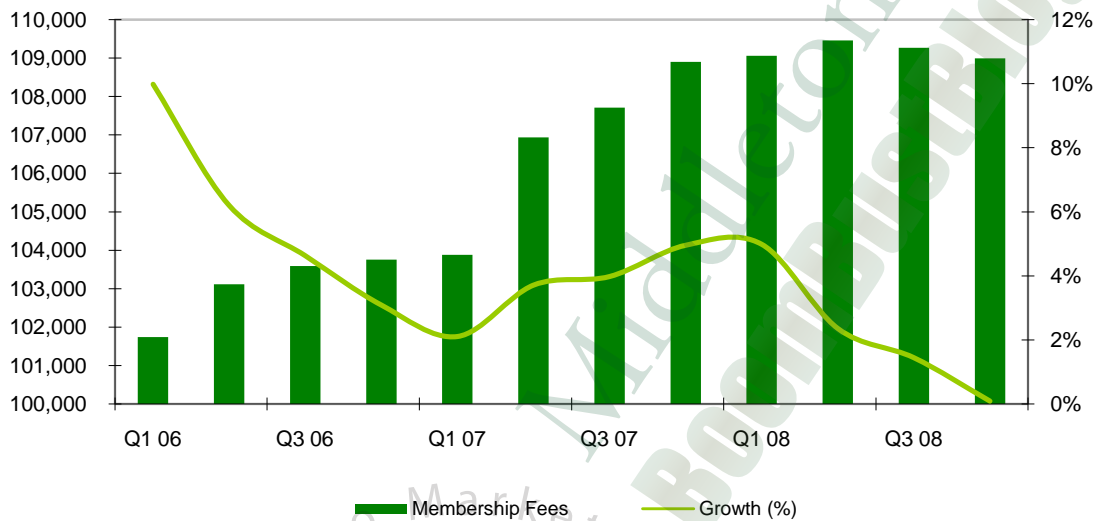
In the comparative valuation, we are not valuing this company on the P/BV front simply because it appears as if they have been cooking their books for so long. In the attached trend analysis worksheet, we have highlighted the number of insider transactions in the last 2 years; of the total one million shares held by the insiders, they have sold more than half of it in the last two years at a time when the company kept on pumping its share price up through numerous buybacks.



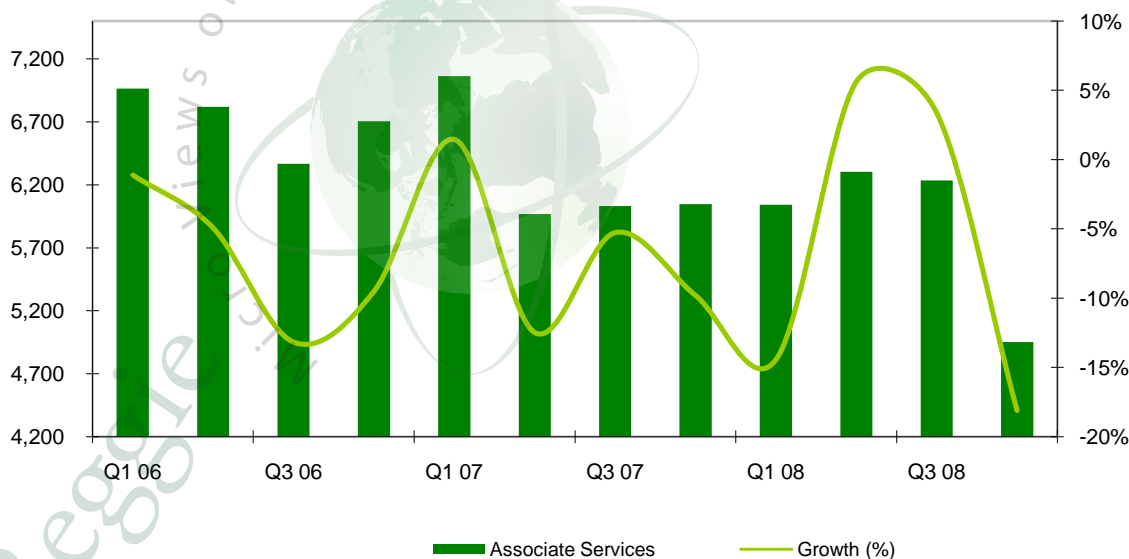
## Visual Trend Analysis

PPD is trending downward in nearly every metric that counts.

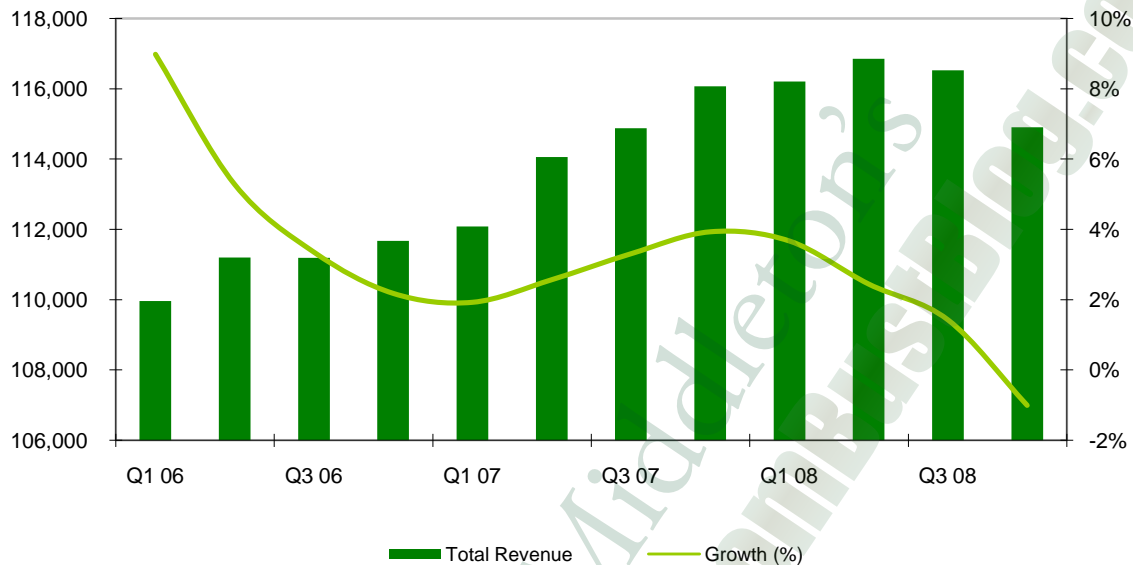
Membership Fee growth have been trending downward since the 1<sup>st</sup> quarter of 2008 and absolute fees have been trending down since Q208!



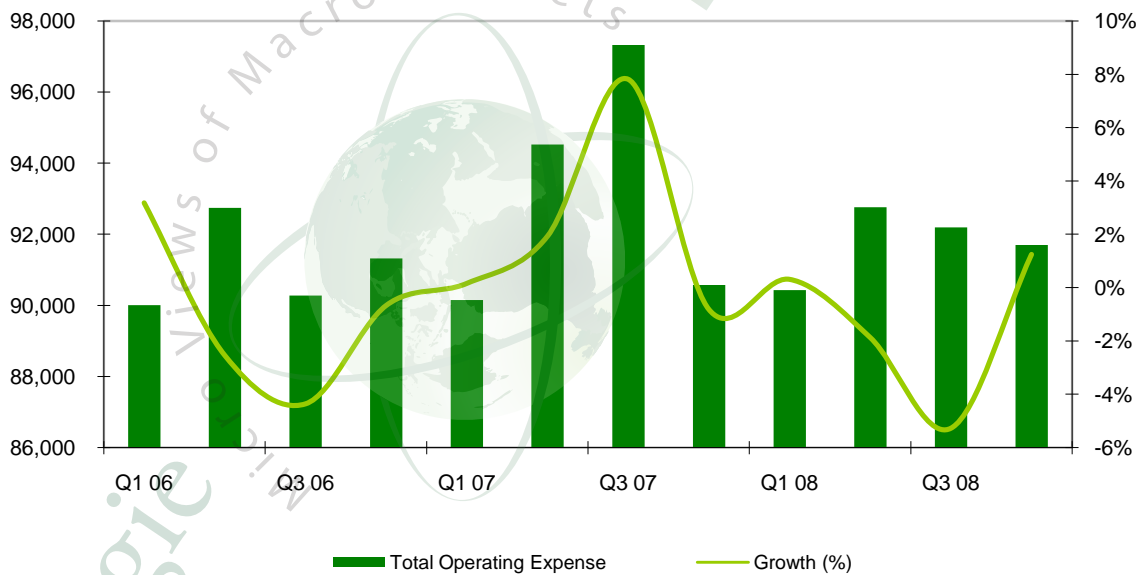
Associate Services, both on an absolute and a growth basis, has been on a downward trend since the 2<sup>nd</sup> quarter of 2008!



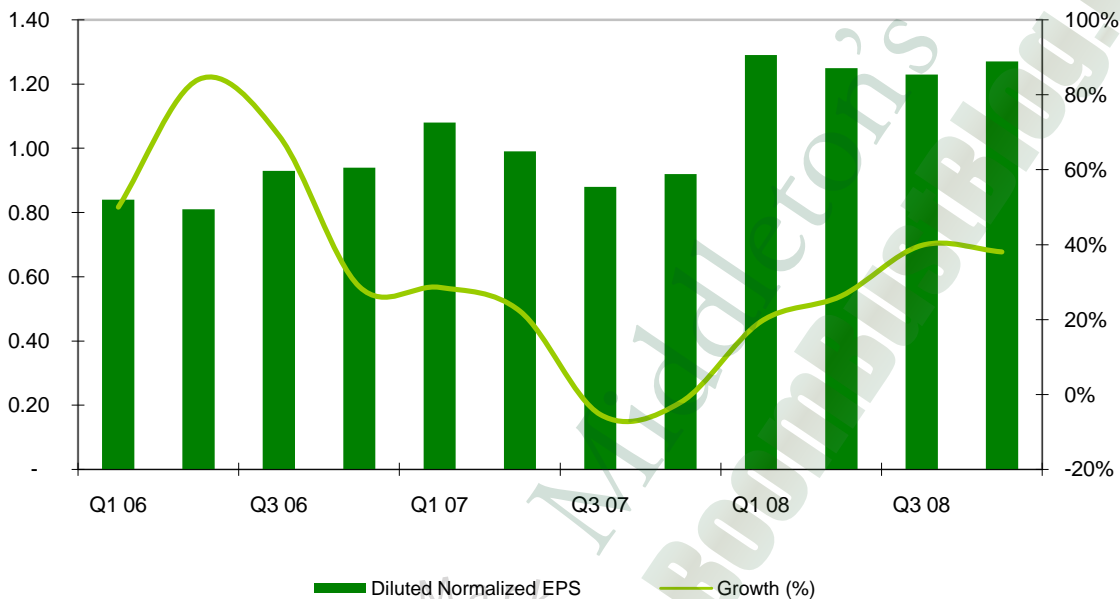
Revenue growth has been falling since Q407



Growth in Operating Expenses have spiked upward since Q308



Despite the extremely negative fundamentals graphically depicted above, normalized diluted earnings per share growth has remained relatively steady over the past quarter or two, while it can be found that aggregate market value and gross earnings have decreased..



### Insider Trading and Transaction Activity

We have ferreted out the reason why EPS has remained steady. The company has been aggressively buying back shares, creating an anti-dilutive/accretive effect while the insiders have been aggressively, and I mean aggressively dumping shares at a rapid clip. There have been no insider buys within the last six months! **There has not even been any insider buys within the last 2 YEARS!** As a matter of fact, the insiders have dumped 35.6% of their total holdings within the last 6 months. We believe that the insiders have come to the same conclusion that we at BoomBustBlog have come to – the company is about to implode! This raises serious questions in our eyes regarding ethics and corporate responsibility, with management selling shares at such a rapid clip directly into an apparently management and board authorized share buyback program. We have witnessed similar activity in other companies, particularly General Growth Properties (see [GGP and the type of investigative analysis you will not get from your brokerage house](#) and particularly [GGP Shenanigans: How much value do you place on the credibility of management?](#)). **Their share prices plunged from \$60 per share to \$0.37, despite managements efforts to use the company's coffers to prop up the share price!**

### Aggressive share buyback led to the increase in EPS

PPD has implemented aggressive share repurchases in the last few years which has benefitted growth in accounting earnings per share, but also has, in our opinion, hampered economic earnings growth and the economic (and absolute) value of the company as a whole – thus pulling the wool of over uninformed shareholder's eyes. In 2008, the company repurchased shares worth US\$44.7 million. This contributed

significantly to the sharp jump in the EPS growth. In 4Q 08, the EPS grew by 36%, while 9% was contributed by the share repurchased during the year. Unlike the case with GGP, however, a cursory examination of their outstanding debt and cash numbers fail to reveal where they have leveraged (or consequently over leveraged) themselves to buy back shares.

Based on the outstanding share count, the company's weighted average diluted shares have declined from 15.8 million in 2004 to 11.56 million in 2008. In fact, in the last 3 years, the company purchased significant shares via buybacks, buying 1.58 million shares in 2006, 1.29 million in 2007 and 1.19 million shares in 2008. At the same time, in the last 2 years, insiders have sold over 0.55 million shares. This chicanery made possible via potentially misleading (though apparently quite legal) accounting of earnings per share versus the accounting of actual and aggregate economic earnings combined with the authorized share repurchases (ex. shenanigans) is made to look like value creation to unsuspecting and/or uninformed investors. These actions, which I have labeled chicanery (but I will leave it up to the reader to decide for him/herself what the essence of the actions are), cannot continue but so long before it folds upon itself, ala Madoff et. Ponzi!

#### **Erosion of market value while maintaining the share price**

PPD's market capitalization has been reduced by over 60% in the last 10 years, while the share price hovers around the same US\$30-35 levels. This has been possible through the continued intervention of the management via the authorized buying back of shares by the corporation (using shareholder's funds), thus artificially keeping the share price steady. I mention again so all can take note, that management itself has not purchased a single, solitary share over the last two years yet has managed to sell more than 35% of their holdings during a period when the market value of the company has been shrinking – During a period where they have authorized the company to utilize shareholder capital to buy back shares while they have been rampantly selling.

#### **NET SHARE PURCHASE ACTIVITY**

##### **Insider Purchases - Last 6 Months**

	Shares	Transfers
Purchases	N/A	0
Sales	556,522	6
Net Shares Purchased (Sold)	(556,522)	6
Total Insider Shares Held	1.00M	N/A
% Net Shares Purchased (Sold)	(35.6%)	N/A

**Net Institutional Purchases - Prior Qtr to Latest Qtr**

Net Shares Purchased (Sold)	Shares (1,516,060)
% Change in Institutional Shares Held	(22.1%)

**INSIDER TRANSACTIONS REPORTED - LAST TWO YEARS**

Date	Insider	Shares	Type	Transaction	Value*
3-Mar-09	<a href="#">GRUNEBaum PETER</a> Director	100	Direct	Sale at \$32.67 per share.	\$3,267
2-Mar-09	<a href="#">GRUNEBaum PETER</a> Director	2,000	Direct	Sale at \$32.75 - \$33.5 per share.	\$660,002
27-Feb-09	<a href="#">GRUNEBaum PETER</a> Director	4,500	Direct	Option Exercise at \$23.93 per share.	\$107,685
27-Feb-09	<a href="#">GRUNEBaum PETER</a> Director	1,000	Direct	Sale at \$32.10 per share.	\$32,100
30-Jan-09	<a href="#">SMITH THOMAS W</a> Director	200,000	Indirect	Sale at \$33.57 per share.	\$6,714,000
15-Dec-08	<a href="#">GRUNEBaum PETER</a> Director	500	Direct	Option Exercise at \$23.93 per share.	\$11,965
15-Dec-08	<a href="#">GRUNEBaum PETER</a> Director	500	Direct	Sale at \$38.65 per share.	\$19,325
10-Dec-08	<a href="#">SMITH THOMAS W</a> Director	52,300	Indirect	Sale at \$38.02 per share.	\$1,988,446
9-Dec-08	<a href="#">SMITH THOMAS W</a> Director	100,000	Indirect	Sale at \$37.73 per share.	\$3,772,999
9-Dec-08	<a href="#">STONECIPHER HARLAND CECIL</a> Officer	2,500	Direct	Disposition (Non Open Market)	N/A
8-Dec-08	<a href="#">SMITH THOMAS W</a> Director	156,622	Indirect	Sale at \$35.08 - \$37.33 per share.	\$56,700,002
5-Dec-08	<a href="#">PINSON KATHLEEN SUSAN</a> Officer	700	Direct	Disposition (Non Open Market)	N/A
5-Dec-08	<a href="#">SMITH THOMAS W</a> Director	29,200	Indirect	Sale at \$36.64 per share.	\$1,069,888
4-Dec-08	<a href="#">SMITH THOMAS W</a> Director	14,900	Indirect	Sale at \$38.54 per share.	\$574,246
26-Nov-08	<a href="#">GRUNEBaum PETER</a> Director	1,000	Direct	Option Exercise at \$23.93 per share.	\$23,930
26-Nov-08	<a href="#">GRUNEBaum PETER</a> Director	1,000	Direct	Sale at \$38 - \$38.5 per share.	\$380,002
24-Nov-08	<a href="#">GRUNEBaum PETER</a> Director	1,000	Direct	Option Exercise at \$23.93 per share.	\$23,930
24-Nov-08	<a href="#">GRUNEBaum PETER</a> Director	1,000	Direct	Sale at \$37.52 - \$38 per share.	\$380,002
8-Sep-08	<a href="#">GRUNEBaum PETER</a> Director	1,000	Direct	Sale at \$44 per share.	\$44,000
27-Aug-08	<a href="#">GRUNEBaum PETER</a> Director	3,000	Direct	Option Exercise at \$23.93 per share.	\$71,790
27-Aug-08	<a href="#">GRUNEBaum PETER</a> Director	2,000	Direct	Sale at \$44.25 per share.	\$88,500
25-Aug-	<a href="#">WILLIAMSON CHARLIE</a>	2,000	Direct	Option Exercise at \$19.20 per share.	\$38,400

08	<a href="#">STEPHEN</a> Officer				
25-Aug-08	<a href="#">WILLIAMSON CHARLIE</a> <a href="#">STEPHEN</a> Officer	1,359	Direct	Sale at \$44.39 per share.	\$60,326
25-Aug-08	<a href="#">WILLIAMSON CHARLIE</a> <a href="#">STEPHEN</a> Officer	641	Direct	Disposition (Non Open Market) at \$44.39 per share.	\$28,453
25-Aug-08	<a href="#">HARP RANDY</a> Officer	6,500	Direct	Sale at \$44.39 per share.	\$288,535
20-Aug-08	<a href="#">GRUNEBAUM PETER</a> Director	800	Direct	Sale at \$43.50 per share.	\$34,800
11-Aug-08	<a href="#">GRUNEBAUM PETER</a> Director	800	Direct	Sale at \$43.50 - \$44 per share.	\$350,002
8-Aug-08	<a href="#">GRUNEBAUM PETER</a> Director	900	Direct	Sale at \$43 - \$43.5 per share.	\$390,002
8-Aug-08	<a href="#">SMITH THOMAS W</a> Director	5,000	Indirect	Sale at \$42.91 per share.	\$214,549
5-Aug-08	<a href="#">GRUNEBAUM PETER</a> Director	800	Direct	Sale at \$42.75 - \$43.3 per share.	\$340,002
4-Aug-08	<a href="#">GRUNEBAUM PETER</a> Director	200	Direct	Sale at \$42.30 per share.	\$8,460
1-Jul-08	<a href="#">FISCHER STEVEN M</a> Beneficial Owner (10% or more)	1,041,456	Indirect	Statement of Ownership	N/A
4-Jun-08	<a href="#">PINSON KATHLEEN SUSAN</a> Officer	500	Direct	Disposition (Non Open Market)	N/A
19-May-08	<a href="#">GRUNEBAUM PETER</a> Director	500	Direct	Sale at \$43 per share.	\$21,500
13-May-08	<a href="#">GRUNEBAUM PETER</a> Director	200	Direct	Sale at \$43.40 per share.	\$8,680
12-May-08	<a href="#">GRUNEBAUM PETER</a> Director	500	Direct	Sale at \$43.39 - \$44 per share.	\$220,002
2-May-08	<a href="#">GRUNEBAUM PETER</a> Director	300	Direct	Sale at \$46.65 per share.	\$13,995
1-May-08	<a href="#">GRUNEBAUM PETER</a> Director	200	Direct	Disposition (Non Open Market) at \$45.30 per share.	\$9,060
1-May-08	<a href="#">GRUNEBAUM PETER</a> Director	800	Direct	Sale at \$45.90 - \$45.93 per share.	\$370,002
13-Mar-08	<a href="#">GRUNEBAUM PETER</a> Director	500	Direct	Sale at \$45.50 per share.	\$22,750
11-Mar-08	<a href="#">GRUNEBAUM PETER</a> Director	1,000	Direct	Sale at \$44 - \$45 per share.	\$450,002
10-Mar-08	<a href="#">GRUNEBAUM PETER</a> Director	500	Direct	Sale at \$43.30 per share.	\$21,650
28-Feb-08	<a href="#">GRUNEBAUM PETER</a> Director	1,000	Direct	Sale at \$48.25 - \$48.9 per share.	\$490,002
26-Feb-08	<a href="#">GRUNEBAUM PETER</a> Director	500	Direct	Sale at \$48.70 per share.	\$24,350
9-Jan-08	<a href="#">GRUNEBAUM PETER</a> Director	6,000	Direct	Option Exercise at \$17.03 per share.	\$102,180
18-Dec-07	<a href="#">STONECIPHER HARLAND</a> <a href="#">CECIL</a> Officer	2,500	Direct	Disposition (Non Open Market)	N/A
3-Dec-07	<a href="#">GRUNEBAUM PETER</a> Director	300	Direct	Sale at \$50.03 - \$50.08 per share.	\$150,002
20-Nov-07	<a href="#">GRUNEBAUM PETER</a> Director	500	Direct	Sale at \$51.20 - \$51.21 per share.	\$260,002
7-Nov-07	<a href="#">GRUNEBAUM PETER</a>	500	Direct	Sale at \$54.12 - \$54.24 per share.	\$270,002

5-Jul-07	Director <a href="#">HAIL JOHN W</a>	900	Direct	Sale at \$66.91 - \$66.91 per share.	\$600,002
11-May-07	Director <a href="#">GRUNEBaum PETER</a>	1,000	Direct	Sale at \$64 - \$64 per share.	\$640,002
8-May-07	Director <a href="#">GRUNEBaum PETER</a>	1,000	Direct	Sale at \$61 - \$61 per share.	\$610,002
25-Apr-07	Officer <a href="#">HARP RANDY</a>	50,000	Direct	Option Exercise at \$24.20 - \$24.2 per share.	\$12,100,002
25-Apr-07	Officer <a href="#">HARP RANDY</a>	49,519	Direct	Sale at \$59.23 - \$60 per share.	\$29,520,002
25-Apr-07	Officer <a href="#">HARP RANDY</a>	16,531	Direct	Disposition (Non Open Market) at \$60.18 - \$60.18 per share.	\$9,950,002
25-Apr-07	Officer <a href="#">PINSON KATHLEEN SUSAN</a>	5,000	Direct	Option Exercise at \$24.20 - \$24.2 per share.	\$1,210,002
25-Apr-07	Officer <a href="#">PINSON KATHLEEN SUSAN</a>	2,024	Direct	Disposition (Non Open Market) at \$60.18 per share.	\$121,804
25-Apr-07	Officer <a href="#">STONECIPHER HARLAND CECIL</a>	100,000	Direct	Option Exercise at \$24.20 - \$24.2 per share.	\$24,200,002
25-Apr-07	Officer <a href="#">STONECIPHER HARLAND CECIL</a>	100,000	Direct	Sale at \$59.70 per share.	\$5,970,000
25-Apr-07	Officer <a href="#">STONECIPHER HARLAND CECIL</a>	62,681	Direct	Disposition (Non Open Market) at \$60.18 - \$60.18 per share.	\$37,720,002
15-Mar-07	Officer <a href="#">WILLIAMSON CHARLIE STEPHEN</a>	825	Direct	Sale at \$53.45 per share.	\$44,096
15-Mar-07	Director <a href="#">BELSKY MARTIN H</a>	5,000	Direct	Option Exercise at \$23.93 - \$23.93 per share.	\$1,200,002
15-Mar-07	Director <a href="#">BELSKY MARTIN H</a>	5,000	Direct	Sale at \$56.30 - \$56.3 per share.	\$2,820,002
14-Mar-07	Director <a href="#">GRUNEBaum PETER</a>	1,000	Direct	Sale at \$51.35 - \$52 per share.	\$520,002



Balance Sheet	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Cash and cash equivalents	20,251	17,517	50,982	25,972	19,583	22,275	25,170	33,957	19,202	76,805	34,360	12,031	17,607	18,195	29,030	24,941	18,089	23,171	21,450	26,528
Available for Sale Investments	10,299	10,417	197	804	8,142	169	3,800	6,742	9,006	427	34,165	42,275	48,800	40,592	13,325	13,177	14,077	5,256	14,153	12,812
Membership Fees Receivable	4,489	4,607	4,716	4,961	4,157	4,884	5,106	5,395	4,953	5,020	5,719	5,518	5,478	5,666	6,128	5,831	5,639	5,740	6,326	6,639
Inventory	1,254	1,286	1,357	1,623	1,360	1,352	1,133	1,717	1,442	1,279	1,371	1,337	1,341	1,370	1,193	1,511	1,560	1,331	1,209	1,285
Refundable IncomeTaxes	-	-	1,611	1,241	-	732	-	-	-	175	19	653	-	316	1,196	2,253	-	5,091	4,162	687
Deferred Service Costs	14,310	13,444	14,966	15,420	17,085	16,765	17,283	16,210	17,219	16,321	17,646	15,879	17,705	16,288	16,301	16,510	15,809	15,497	16,141	15,737
Deferred IncomeTaxes	4,615	5,020	4,596	4,829	4,356	5,084	4,832	4,894	4,740	5,237	4,420	4,235	3,995	4,992	5,008	5,163	4,852	5,793	5,567	5,151
Other Current Assets	-	-	-	3,518	-	-	-	5,236	6,186	6,320	5,994	6,404	6,465	6,561	7,370	6,793	7,509	6,912	7,089	6,200
<b>Total Current Assets</b>	<b>55,218</b>	<b>52,291</b>	<b>78,425</b>	<b>58,368</b>	<b>54,683</b>	<b>51,261</b>	<b>57,324</b>	<b>74,151</b>	<b>62,748</b>	<b>111,584</b>	<b>103,694</b>	<b>88,332</b>	<b>101,391</b>	<b>93,980</b>	<b>79,551</b>	<b>76,179</b>	<b>67,535</b>	<b>68,791</b>	<b>76,097</b>	<b>75,039</b>
Available for Sale, LT Investments	17,214	16,818	17,035	25,455	18,897	19,482	19,336	19,213	22,067	23,138	27,234	27,461	20,602	21,491	26,402	20,766	28,239	27,240	19,250	20,637
Pledged Investments	4,376	4,308	4,352	4,381	4,372	4,257	4,008	4,307	4,289	4,327	4,174	4,145	4,151	4,246	4,350	4,341	4,288	4,167	4,005	4,039
Property & Equipment, Net	48,378	48,408	47,621	51,232	50,467	50,356	49,680	58,947	59,532	60,815	60,854	59,643	58,805	57,550	56,767	56,963	56,790	55,760	54,837	53,445
Dfd. Acq./Membership Costs	2,434	2,429	2,434	2,580	2,743	2,939	3,067	3,003	2,973	2,907	2,826	2,636	2,577	2,485	2,447	2,380	2,265	2,174	2,118	2,003
Other	7,012	7,455	7,297	4,048	7,729	8,528	10,955	5,244	5,423	6,379	6,830	6,330	6,484	6,892	6,681	7,003	7,291	7,469	7,637	7,680
<b>Total Assets</b>	<b>134,632</b>	<b>131,709</b>	<b>157,164</b>	<b>146,064</b>	<b>138,891</b>	<b>136,823</b>	<b>144,370</b>	<b>164,865</b>	<b>157,032</b>	<b>209,150</b>	<b>205,612</b>	<b>188,547</b>	<b>194,010</b>	<b>186,644</b>	<b>176,198</b>	<b>167,632</b>	<b>166,408</b>	<b>165,601</b>	<b>163,944</b>	<b>162,843</b>
Membership benefits payable	9,706	9,769	10,031	10,340	10,776	11,243	11,529	11,638	11,819	11,912	11,983	11,995	12,180	12,041	12,218	12,155	12,092	12,153	12,265	12,013
Deffered Revenue & Fees	23,370	23,571	23,737	24,585	24,961	26,484	27,043	26,287	26,902	27,278	27,178	26,404	27,373	27,512	27,569	27,271	28,147	28,218	27,617	26,556
Current Portion of Capital Leases	810	809	808	338	339	320	321	321	320	321	21	340	21	22	22	22	22	22	23	24
Current Portion of Notes Payable	18,953	17,564	18,036	18,036	18,036	18,498	18,498	15,250	11,312	17,187	18,437	18,437	18,437	18,437	18,241	18,241	18,241	27,408	24,908	22,408
Income taxes payable	4,874	-	-	-	-	-	-	1,738	6,348	-	-	-	6,143	-	5,590	5,491	-	-	-	-
Accounts Payable & Accrued Expense	17,194	13,712	12,664	15,451	19,698	14,621	16,398	17,357	16,394	17,395	14,154	13,645	14,302	15,396	15,034	15,891	15,410	15,151	15,858	16,327
Treasury Stock Tender Offer Payable	-	-	25,495	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Payable	-	-	-	7,796	-	-	-	4,643	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>74,907</b>	<b>65,425</b>	<b>90,771</b>	<b>76,546</b>	<b>73,810</b>	<b>71,166</b>	<b>73,789</b>	<b>77,234</b>	<b>73,095</b>	<b>74,093</b>	<b>71,773</b>	<b>70,457</b>	<b>78,456</b>	<b>73,408</b>	<b>73,084</b>	<b>79,170</b>	<b>79,403</b>	<b>82,952</b>	<b>80,671</b>	<b>77,328</b>
Capital Lease Payables	1,009	1,007	1,003	1,618	1,612	1,307	1,300	1,296	1,292	986	1,281	957	951	945	940	934	928	924	917	910
Notes Payable	19,730	16,380	31,559	27,050	22,541	19,807	15,182	23,220	22,361	82,751	78,142	73,533	68,924	64,314	60,053	55,492	50,932	46,371	41,811	37,251
<b>Total Long Term Debt</b>	<b>20,739</b>	<b>17,387</b>	<b>32,562</b>	<b>28,668</b>	<b>24,153</b>	<b>21,114</b>	<b>16,482</b>	<b>24,516</b>	<b>23,653</b>	<b>83,737</b>	<b>79,423</b>	<b>74,490</b>	<b>69,875</b>	<b>65,259</b>	<b>60,993</b>	<b>56,426</b>	<b>51,860</b>	<b>47,295</b>	<b>42,728</b>	<b>38,161</b>
			<i>Growth (%)</i>																	
Deffered revenue and fees	3,332	2,924	3,332	2,361	2,914	3,030	3,102	3,007	2,973	2,907	2,826	2,636	2,577	2,485	2,447	2,380	2,265	2,174	2,118	2,003
Deferred IncomeTaxes	2,205	2,185	2,440	4,248	3,533	3,691	2,988	4,782	4,520	4,505	4,618	4,897	4,615	4,769	4,765	5,273	5,359	5,259	5,303	5,646
Other Long Term Liabilities	1,770	1,915	2,437	2,794	3,160	3,410	3,663	3,932	4,226	4,226	4,813	5,207	5,519	5,780	6,130	6,544	6,872	7,243	7,568	7,898
<b>Total Liabilities</b>	<b>102,953</b>	<b>89,836</b>	<b>131,542</b>	<b>114,617</b>	<b>107,570</b>	<b>102,411</b>	<b>100,204</b>	<b>113,471</b>	<b>108,467</b>	<b>169,468</b>	<b>163,453</b>	<b>157,687</b>	<b>161,042</b>	<b>151,701</b>	<b>147,419</b>	<b>149,793</b>	<b>145,759</b>	<b>144,923</b>	<b>138,388</b>	<b>131,036</b>
Common stock 01 par value: 100 000 share	213	213	204	205	202	203	203	203	199	194	191	185	182	181	177	173	170	167	165	163
Retained Earnings	129,525	140,062	123,785	129,290	129,840	132,761	142,765	149,832	147,279	138,291	140,459	129,413	131,376	132,995	126,049	114,873	118,115	118,295	123,797	130,832
Treasury stock at cost: 4 852 shares he	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)	(99,028)
Accumulated Comprehensive Income	969	626	661	980	307	476	406	387	115	225	537	290	438	795	1,581	1,821	1,392	1,244	622	(160)
<b>Total Equity</b>	<b>31,679</b>	<b>41,873</b>	<b>25,622</b>	<b>31,447</b>	<b>31,321</b>	<b>34,412</b>	<b>44,346</b>	<b>51,394</b>	<b>48,565</b>	<b>39,682</b>	<b>42,159</b>	<b>30,860</b>	<b>32,968</b>	<b>34,943</b>	<b>28,779</b>	<b>17,839</b>	<b>20,649</b>	<b>20,678</b>	<b>25,556</b>	<b>31,807</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>134,632</b>	<b>131,709</b>	<b>157,164</b>	<b>146,064</b>	<b>138,891</b>	<b>136,823</b>	<b>144,370</b>	<b>164,865</b>	<b>157,032</b>	<b>209,150</b>	<b>205,612</b>	<b>188,547</b>	<b>194,010</b>	<b>186,644</b>	<b>176,198</b>	<b>167,632</b>	<b>166,408</b>	<b>165,601</b>	<b>163,944</b>	<b>162,843</b>
S/O-Common Stock	16,465	16,492	15,500	15,612	15,376	15,418	15,462	15,474	15,048	14,516	14,206	13,636	13,348	13,244	12,886	12,439	12,166	11,822	11,620	11,402
<b>Total Common Shares Outstanding</b>	<b>16,465</b>	<b>16,492</b>	<b>15,500</b>	<b>15,612</b>	<b>15,376</b>	<b>15,418</b>	<b>15,462</b>	<b>15,474</b>	<b>15,048</b>	<b>14,516</b>	<b>14,206</b>	<b>13,636</b>	<b>13,348</b>	<b>13,244</b>	<b>12,886</b>	<b>12,439</b>	<b>12,166</b>	<b>11,822</b>	<b>11,620</b>	<b>11,402</b>
T/S-Common Stock	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852	4,852
Deferred Revenue - Current	23,370	23,571	23,737	24,585	24,961	26,484	27,043	26,287	26,902	27,278	27,178	26,404	27,373	27,512	27,569	27,271	28,147	28,218	27,617	26,556
Deferred Revenue - Long Term	-	-	3,332	2,361	2,914	3,030	3,102	3,007	2,973	2,907	2,826	2,636	2,577	2,485	2,447	2,380	2,265	2,174	2,118	2,003

Cash Flow Statement	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Net Income	10,622	20,628	30,285	40,777	8,948	15,801	24,445	35,812	13,071	25,161	38,567	51,798	14,728	27,907	39,480	51,202	15,942	30,998	45,440	60,172
Depreciation	1,948	3,904	5,840	7,709	1,869	3,695	5,462	7,489	2,043	4,042	6,139	8,260	2,090	4,297	6,381	8,532	2,191	4,377	6,571	8,756
Provision for deferred income taxes	283	31	756	2,197	112	(549)	(875)	912	(108)	(620)	310	774	(42)	(754)	(905)	(552)	397	(644)	(374)	385
Tax Benefits on Stock Options	107	137	214	775	-	-	-	1,221	-	-	-	-	-	-	-	-	-	-	-	-
ESOP Expenses	-	231	231	231	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in refundable income taxes	-	-	-	-	-	-	-	-	-	-	-	-	653	-	-	-	2,253	-	-	-
Increase in accrued Membership fees rece	86	(32)	(141)	(386)	804	77	(145)	(434)	442	375	(324)	(123)	40	(148)	(610)	(313)	192	91	(495)	(808)
Decrease (increase) in inventories	(397)	(429)	(500)	(766)	263	271	490	(94)	275	438	346	380	(4)	(33)	144	(174)	(49)	180	302	226
Decrease (increase) in refundable income	331	331	-	(910)	1,241	509	-	1,241	-	(175)	-	(653)	-	337	-	(1,600)	-	(2,838)	-	1,566
Other Current Assets	-	-	(1,280)	-	-	-	1,241	-	-	-	(19)	-	-	-	(543)	-	-	-	(1,909)	-
Deferred Service Costs	(154)	717	(810)	(1,410)	(1,828)	(1,704)	(2,350)	(1,213)	(979)	(15)	(1,259)	698	(1,767)	(258)	(233)	(375)	816	1,219	631	1,150
Other Assets	(1,877)	(2,320)	(2,162)	(2,431)	(163)	(962)	(3,389)	(2,914)	(1,129)	(2,219)	(2,344)	(2,254)	(215)	(719)	(1,317)	(1,062)	(1,004)	(585)	(930)	(84)
(Decrease) increase in Membership benefi	417	480	742	1,051	436	903	1,189	1,298	181	274	345	357	185	46	223	160	(63)	(2)	110	(142)
(Decrease) increase in deferred revenue	(391)	(598)	(24)	(147)	929	2,568	3,199	2,348	581	891	710	(618)	1,274	1,321	1,340	975	761	741	84	(1,092)
Other LT Liab.	-	-	-	1,349	366	616	869	1,138	294	294	881	1,275	312	573	923	1,337	328	699	1,024	1,354
(Decrease) increase in income taxes paya	4,874	-	-	-	3,064	-	-	-	4,610	(1,738)	(1,738)	-	6,143	-	-	5,590	(99)	(5,590)	(5,590)	(5,590)
Increase (decrease) in accounts payable	1,119	(2,239)	(2,646)	(776)	1,168	(846)	1,094	3,327	(1,004)	229	(3,043)	(5,509)	708	2,355	2,528	3,458	(840)	(988)	(546)	(1,576)
<b>Cash from Operating Activities</b>	<b>16,968</b>	<b>20,841</b>	<b>30,505</b>	<b>47,263</b>	<b>17,209</b>	<b>20,379</b>	<b>31,230</b>	<b>50,131</b>	<b>18,277</b>	<b>26,937</b>	<b>38,571</b>	<b>54,385</b>	<b>24,105</b>	<b>34,924</b>	<b>47,411</b>	<b>67,178</b>	<b>20,825</b>	<b>27,658</b>	<b>44,318</b>	<b>64,317</b>
Capital Expenditures	(3,205)	(5,191)	(6,340)	(10,879)	(1,104)	(2,819)	(3,910)	(14,778)	(2,628)	(5,910)	(8,046)	(8,956)	(1,252)	(2,204)	(3,511)	(5,858)	(2,034)	(3,190)	(4,461)	(5,254)
Purchase of Investments for Sale	(3,030)	(6,661)	(7,919)	(24,135)	(2,889)	(3,569)	(10,190)	(18,312)	(6,935)	(8,559)	(88,843)	(179,799)	(41,692)	(119,812)	(188,465)	(270,435)	(29,188)	(34,740)	(49,274)	(64,983)
Maturity of Investments for Sale	1,585	5,067	16,154	23,692	1,106	9,550	12,577	17,545	1,604	10,576	53,522	136,142	42,117	127,134	218,427	306,357	20,814	36,048	49,480	65,826
<b>Cash from Investing Activities</b>	<b>(4,650)</b>	<b>(6,785)</b>	<b>1,895</b>	<b>(11,322)</b>	<b>(2,887)</b>	<b>3,162</b>	<b>(1,523)</b>	<b>(15,545)</b>	<b>(7,959)</b>	<b>(3,893)</b>	<b>(43,367)</b>	<b>(52,613)</b>	<b>(827)</b>	<b>5,118</b>	<b>26,451</b>	<b>30,064</b>	<b>(10,408)</b>	<b>(1,882)</b>	<b>(4,255)</b>	<b>(4,411)</b>
Tax Benefit on Exercise of Stock Options	-	-	-	-	209	659	1,137	-	172	636	649	703	364	790	790	790	79	79	142	156
Proceeds from exercise of stock options	411	681	1,442	5,176	1,357	3,246	4,180	4,439	365	222	288	485	858	(84)	(84)	(84)	102	102	278	338
Repayment of capital lease obligations	(4)	(7)	(12)	(808)	(5)	(329)	(335)	(339)	(5)	(310)	(315)	(320)	(325)	(330)	(335)	(341)	(6)	(10)	(16)	(22)
Purchases of treasury stock	(9,195)	(9,195)	(10,481)	(37,461)	(9,967)	(11,621)	(11,673)	(11,673)	(16,165)	(37,569)	(48,889)	(73,423)	(13,990)	(25,035)	(43,558)	(66,460)	(12,884)	(27,763)	(36,944)	(44,717)
Common Dividends	-	-	-	(7,796)	(12,412)	(12,412)	(12,412)	(12,412)	(4,643)	(4,643)	(4,643)	-	-	-	-	-	-	-	-	-
Notes Payable Paid	(4,738)	(9,477)	(12,826)	(17,335)	(4,509)	(9,095)	(13,720)	(20,445)	(4,797)	(23,532)	(26,891)	(31,500)	(4,609)	(9,219)	(23,232)	(27,793)	(4,560)	(9,954)	(17,014)	(24,074)
Dividends paid	-	-	-	-	-	-	(12,412)	-	-	-	-	(4,643)	-	-	-	-	-	-	-	-
Notes Payable Issued	-	-	19,000	19,000	-	2,314	2,314	13,829	-	85,000	85,000	85,000	-	-	9,556	9,556	-	10,000	10,000	10,000
<b>Cash from Financing Activities</b>	<b>(13,526)</b>	<b>(17,998)</b>	<b>(2,877)</b>	<b>(31,428)</b>	<b>(20,711)</b>	<b>(27,238)</b>	<b>(30,509)</b>	<b>(26,601)</b>	<b>(25,073)</b>	<b>19,804</b>	<b>5,199</b>	<b>(23,698)</b>	<b>(17,702)</b>	<b>(33,878)</b>	<b>(56,863)</b>	<b>(84,332)</b>	<b>(17,269)</b>	<b>(27,546)</b>	<b>(43,554)</b>	<b>(58,319)</b>
<b>Net Change in Cash</b>	<b>(1,208)</b>	<b>(3,942)</b>	<b>29,523</b>	<b>4,513</b>	<b>(6,389)</b>	<b>(3,697)</b>	<b>(802)</b>	<b>7,985</b>	<b>(14,755)</b>	<b>42,848</b>	<b>403</b>	<b>(21,926)</b>	<b>5,576</b>	<b>6,164</b>	<b>16,999</b>	<b>12,910</b>	<b>(6,852)</b>	<b>(1,770)</b>	<b>(3,491)</b>	<b>1,587</b>
Net Cash - Beginning Balance	21,459	21,459	21,459	21,459	25,972	25,972	25,972	25,972	33,957	33,957	33,957	33,957	12,031	12,031	12,031	12,031	24,941	24,941	24,941	24,941
Net Cash - Ending Balance	20,251	17,517	50,982	25,972	19,583	22,275	25,170	33,957	19,202	76,805	34,360	12,031	17,607	18,195	29,030	24,941	18,089	23,171	21,450	26,528
Cash Interest Paid	461	776	1,127	1,752	594	1,212	1,818	2,432	666	1,317	3,233	5,540	1,904	3,732	5,042	6,541	999	2,310	3,146	4,443
Cash Taxes Paid	-	10,300	16,000	19,429	-	7,615	11,015	13,350	2,059	14,998	21,633	28,780	158	13,256	20,317	30,937	8,228	27,878	36,318	42,142

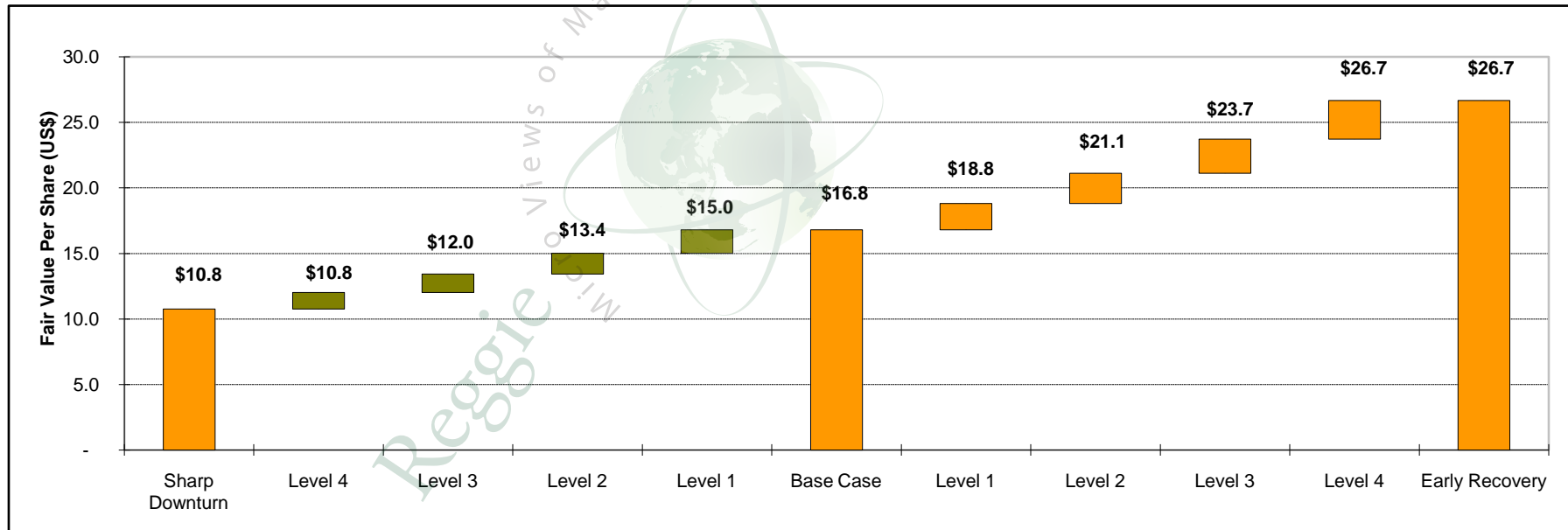
## Assumptions, Sensitivity and Macro Scenario Analysis – Projection Assumption

	Q1	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	1Q 09E	2Q 09E	3Q 09E	4Q 09E	1Q 10E
<b>Membership Fees</b>	<b>108,898</b>	<b>109,060</b>	<b>109,456</b>	<b>109,268</b>	<b>108,994</b>	<b>108,994</b>	<b>92,260</b>	<b>86,475</b>	<b>82,856</b>	<b>77,876</b>	<b>64,437</b>
Membership Fees on Total New Enrollment							6,685	6,350	6,334	5,893	5,392
Membership Fees on Stand-alone IDT							2,134	2,050	2,210	2,019	1,919
Renewable Fees on Normal membership							55,027	50,338	46,370	42,530	33,222
Renewable Fees on sales associates							25,637	25,070	25,067	24,806	21,407
Stand-alone IDT							2,777	2,668	2,876	2,627	2,498
							<b>Value for 09E</b>	<b>-10.0%</b>			
New legal service membership sales	139,282	131,862	127,804	137,227	124,629	124,629	118,676	115,024	123,504	112,166	105,621
Growth	5.8%	-10.7%	-7.4%	-5.7%	-10.5%	-10.5%	-10.0%	-10.0%	-10.0%	-10.0%	-11.0%
							<b>Value for 09E</b>	<b>-23.6%</b>			
New "stand-alone" IDT membership sales	10,818	8,337	6,642	7,814	8,012	8,012	6,369	5,074	5,970	6,121	4,866
Growth	35.1%	-39.5%	-17.8%	-10.9%	-25.9%	-25.9%	-23.6%	-23.6%	-23.6%	-23.6%	-23.6%
<b>Total new membership sales</b>	<b>150,100</b>	<b>140,199</b>	<b>134,446</b>	<b>145,041</b>	<b>132,641</b>	<b>132,641</b>	<b>125,045</b>	<b>120,098</b>	<b>129,474</b>	<b>118,287</b>	<b>110,488</b>
New "add-on" IDT membership sales	94,945	81,263	82,623	95,762	85,221	85,221	71,493	68,664	74,025	67,629	64,299
As a % of total new membership	63%	58%	61%	66%	64%	64%	57%	57%	57%	57%	58%
<b>Average Annual Membership fee</b>	<b>321.32</b>	<b>321.47</b>	<b>329.44</b>	<b>326.14</b>	<b>321.03</b>	<b>321.03</b>	<b>321.4</b>	<b>329.4</b>	<b>326.1</b>	<b>321.0</b>	<b>321.3</b>
Growth	-0.7%	3.7%	1.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Total active memberships at end of period	1,575,802	1,566,959	1,566,639	1,575,893	1,559,154	1,559,154	1,442,530	1,339,036	1,260,960	1,183,798	1,098,959
Members Left	243,799	230,305	217,389	231,549	234,601	234,601	241,669	223,592	207,551	195,449	195,327
							<b>Value for 09E</b>	<b>15.5%</b>			
Members Left as a % of Total active membership	15%	15%	14%	15%	15%	15%	15.5%	15.5%	15.5%	15.5%	16.5%
Renewed membership	1,332,003	1,336,654	1,349,250	1,344,344	1,324,553	1,324,553	1,200,862	1,115,444	1,053,409	988,350	903,633
New sales associates recruited	36,029	25,800	26,102	37,820	32,533	32,533	21,208	21,456	31,088	26,742	17,433
							<b>Value for 09E</b>	<b>-17.8%</b>			
Growth	2.0%	-16.9%	-31.6%	-13.2%	-9.7%	-9.7%	-17.8%	-17.8%	-17.8%	-17.8%	-17.8%
Average enrollment fee paid by new sales associates	48.99	94.71	98.93	56.17	36.31	36.31	71.53	71.53	71.53	71.53	71.53
<b>Total Sales Associates (Active)</b>	<b>442,361</b>	<b>433,262</b>	<b>424,465</b>	<b>427,385</b>	<b>425,018</b>	<b>425,018</b>	<b>413,944</b>	<b>403,118</b>	<b>401,924</b>	<b>396,383</b>	<b>383,956</b>
Left during the year	37,735	34,899	34,899	34,900	34,900	34,900	32,282	32,282	32,283	32,283	29,860
							<b>Value for 09E</b>	<b>-7.5%</b>			
Growth	-23.3%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%	-7.5%
Renewed membership	404,626	398,363	389,566	392,485	390,118	390,118	381,662	370,837	369,641	364,101	354,095
<b>Average Annual Membership fee</b>	<b>297.6</b>	<b>298.5</b>	<b>300.5</b>	<b>301.4</b>	<b>302.8</b>	<b>302.8</b>	<b>268.7</b>	<b>270.4</b>	<b>271.3</b>	<b>272.5</b>	<b>241.8</b>
							<b>Value for 09E</b>	<b>-10.0%</b>			
Growth	1.6%	1.5%	1.5%	1.3%	1.7%	1.7%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
Average enrollment fee paid by new sales associates	56.8	71.5	71.5	71.5	71.5	71.5	64.4	64.4	64.4	64.4	57.9
							<b>Value for 09E</b>	<b>-10.0%</b>			
Growth	14.2%	26.0%	26.0%	26.0%	26.0%	26.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
Stand Alone IDT Fees		9.95	9.95	9.95	9.95	9.95	9.95	9.95	9.95	9.95	9.95
New add-on IDT Fees		12.95	12.95	12.95	12.95	12.95	12.95	12.95	12.95	12.95	12.95
Associate Services	6,048	6,043	6,303	6,236	4,952	4,952	4,489	4,309	4,806	4,358	3,191
Enrollment / Membership Fees	2,045	1,845	1,867	2,705	2,327	2,327	1,365	1,381	2,001	1,722	1,010
Others	4,003	4,198	4,436	3,531	2,625	2,625	3,123	2,927	2,805	2,636	2,181
As a % of membership fees	4%	4%	4%	3%	2%	2%	3%	3%	3%	3%	3%
Other	1,122	1,100	1,096	1,019	962	962	882	827	792	745	616
As a % of membership fees	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%

### Macro Scenario Analysis

PPD	Active Scenario	Pessimistic - Sharp Economic Downturn				Base Case	Optimistic - Early Economic Recovery			
		Level 4	Level 3	Level 2	Level 1		Level 1	Level 2	Level 3	Level 4
		E	A	B	C		D	E	F	G
New legal service membership growth		-14.0%	-13.0%	-12.0%	-11.0%	-10.0%	-9.0%	-8.0%	-7.0%	-6.0%
New "stand-alone" IDT membership growth		-31.6%	-29.6%	-27.6%	-25.6%	-23.6%	-21.6%	-19.6%	-17.6%	-15.6%
Members Left as a % of Total active membership		19.5%	18.5%	17.5%	16.5%	15.5%	14.5%	13.5%	12.5%	11.5%
New sales associates recruited growth		-25.8%	-23.8%	-21.8%	-19.8%	-17.8%	-15.8%	-13.8%	-11.8%	-9.8%
Sales associates exit growth		-3.5%	-4.5%	-5.5%	-6.5%	-7.5%	-8.5%	-9.5%	-10.5%	-11.5%
Average Annual Membership fee growth		-12.0%	-11.5%	-11.0%	-10.5%	-10.0%	-9.5%	-9.0%	-8.5%	-8.0%
Average enrollment fee growth		-12.0%	-11.5%	-11.0%	-10.5%	-10.0%	-9.5%	-9.0%	-8.5%	-8.0%

Fair Value of PPD under Macro Scenario:	A	B	C	D	E	F	G	H	I
	10.8	12.0	13.4	15.0	16.8	18.8	21.1	23.7	26.7



## Valuation

### Discounted Cash Flow Valuation

DCF Analysis for Pre-paid Legal Services	FY 2008A	FY 2009E	FY 2010E	FY 2011E	FY 2012E	FY 2013E
<b>Free cash flow to Firm (FCFF) analysis</b>						
EBT	97,397	59,441	39,573	26,667	15,765	7,800
Add: Net Interest	1,975	1,647	1,396	1,144	893	642
EBIT	99,372	61,087	40,969	27,811	16,659	8,443
Tax Rate	38%	38%	38%	38%	38%	38%
<b>NOPLAT</b>	61,611	37,874	25,401	17,243	10,328	5,235
Add: Total Depreciation & Amortization	8,756	8,905	9,303	9,701	10,099	10,496
Less: CAPEX	(5,254)	(5,254)	(5,254)	(5,254)	(5,254)	(5,254)
Add: Change in working capital	(520)	6,930	5,193	3,629	2,547	1,827
<b>Free Cash Flows to Firm</b>	64,593	48,455	34,642	25,319	17,720	12,304
Discount Factor		0.93	0.84	0.76	0.69	0.63
<b>PV of FCFF</b>		<b>44,834</b>	<b>29,087</b>	<b>19,292</b>	<b>12,252</b>	<b>7,720</b>
Terminal cash flow						150,384
Terminal growth rate						2.0%
Cost of Equity						10.3%

Cost of Equity	
Risk free rate	2.9%
Equity risk premium	8.3%
Beta	0.90
<b>Cost of equity</b>	<b>10.3%</b>
Expected market return	11.2%

DCF valuation	
Sum of present value of FCFF	113,186
Present value of terminal value	94,361
<b>Enterprise Value</b>	<b>207,547</b>
Add: Cash & Cash Equivalent	47,165
Less: Debt	60,593
Equity Value	194,119
No. of weighted average shares	11,561
<b>Fair Value Per Share (US\$)</b>	<b>16.8</b>

## Comparative Valuation

Name	Ticker	Mcap (million)	Outstanding Shares	Price Last	Book Value Per Share			Earnings per share			Revenue Per Share		
					2008	2009	2010	2008	2009	2010	2008	2009	2010
Pre-Paid Legal Services	PPD.N	358	11.19	31.96	2.49	5.95	8.08	3.19	2.12	1.43	41.49	32.22	22.79
Weight Watchers International, Inc.	WTW.N	1,470	76.98	19.09	-10.08	-8.37	-6.39	2.54	2.61	2.75	19.57	19.47	20.17
Legal & General Group Plc	LGEN.L	1,905	5,861.68	0.33	0.67	0.71	0.63	0.12	0.13	0.13	4.16	4.52	4.92
LECG Corporation	XPRT.OQ	55	25.56	2.17	6.21	6.26	6.36	-0.24	0.30	0.36	11.18	12.72	13.89

Name	Price/Book Value			Price/Earnings			Price/Revenue		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Pre-Paid Legal Services	12.81	5.37	3.96	10.03	15.06	22.35	0.77	0.99	1.40
Weight Watchers International, Inc.	-1.70	-2.04	-2.68	7.50	7.31	6.95	0.98	0.98	0.95
Legal & General Group Plc	34.52	32.26	36.46	2.60	2.56	2.53	0.08	0.07	0.07
LECG Corporation	0.26	0.26	0.25	-9.23	7.36	6.03	0.19	0.17	0.16
	<b>11.47</b>	<b>8.96</b>	<b>9.50</b>	<b>2.72</b>	<b>8.07</b>	<b>9.46</b>	<b>0.50</b>	<b>0.55</b>	<b>0.64</b>

Relative Price/Book valuation	2008	2009	2010
Book Value Per Share	2.49	5.95	8.08
Industry multiple	11.47	8.96	9.50
Premium/(Discount) to Industry Multiple			
<b>Fair Value Per Share</b>	<b>28.62</b>	<b>53.33</b>	<b>76.69</b>

Relative Price/Earnings valuation	2008	2009	2010
Earnings Per Share	3.19	2.12	1.43
Industry multiple	2.72	8.07	9.46
Premium/(Discount) to Industry Multiple			
<b>Fair Value Per Share</b>	<b>8.69</b>	<b>17.13</b>	<b>13.53</b>

Relative Price/Revenue valuation	2008	2009	2010
Revenue Per Share	41.49	32.22	22.79
Industry multiple	0.50	0.55	0.64
Premium/(Discount) to Industry Multiple			
<b>Fair Value Per Share</b>	<b>20.94</b>	<b>17.84</b>	<b>14.65</b>

*Prepaid is trading at an extreme premium of book value and revenue multiples.*

Quite frankly, I don't trust their book values but have not had the time to forensically dissect them.

Name	Price/Book Value						
	2004	2005	2006	2007	Current	Average	Premium/(discount)
<b>Pre-Paid Legal Services</b>	<b>18.64</b>	<b>11.50</b>	<b>17.29</b>	<b>38.60</b>	<b>13.37</b>	<b>19.88</b>	<b>163%</b>
Weight Watchers International, Inc.	N/A	N/A	N/A	N/A	N/A		
Legal & General Group Plc	1.76	1.70	1.88	1.50	0.32	1.43	-81%
LECG Corporation	2.16	1.99	1.51	1.01	0.27	1.39	-82%
<b>Industry average</b>	<b>7.52</b>	<b>5.06</b>	<b>6.90</b>	<b>13.70</b>	<b>4.65</b>	<b>7.57</b>	

Name	Price/Earnings						Premium/(discount)
	2004	2005	2006	2007	Current	Average	
Pre-Paid Legal Services	15.02	16.51	11.06	14.22	6.34	12.63	-17%
Weight Watchers International, Inc.	29.12	24.71	18.14	11.15	7.34		
Legal & General Group Plc	15.70	8.48	6.53	11.62	5.26	9.52	-37%
LECG Corporation	18.62	21.53	29.55	N/A	-	23.24	54%
<b>Industry average</b>	<b>19.62</b>	<b>17.81</b>	<b>16.32</b>	<b>12.33</b>	<b>6.31</b>	<b>15.13</b>	

Name	Price/Revenue						Average	
	2004	2005	2006	2007	Current			
<b>Pre-Paid Legal Services</b>	<b>1.60</b>	<b>1.41</b>	<b>1.30</b>	<b>1.60</b>	<b>0.70</b>	<b>1.32</b>	<b>50%</b>	
Weight Watchers International, Inc.	4.47	4.23	2.50	1.49	0.86			
Legal & General Group Plc	0.43	0.27	0.49	0.46	N/A	0.41	-53%	
LECG Corporation	1.53	1.35	1.04	0.51	0.12	0.91	3%	
<b>Industry average</b>	<b>2.01</b>	<b>1.82</b>	<b>1.33</b>	<b>1.01</b>	<b>0.56</b>	<b>0.88</b>		

Name	Book Value Per Share				Earning Per Share				Revenue				Outstanding Shares				Revenue Per Share				Revenue		
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007	2008	2009	2010
Pre-Paid Legal Services	3.32	2.26	1.43	2.79	2.31	3.54	3.89	5.05	423	444	457	464	15.47	14.64	13.15	11.92	27.37	30.33	34.76	38.98	464	361	255
Weight Watchers International, Inc.	-6.92	5.41	7.68	15.11	1.70	2.13	2.50	2.61	1,151	6,129	7,176	7,692	102.75	98.72	80.58	78.25	11.20	62.08	89.05	98.30	1,506	1,499	1,553
Legal & General Group Plc	-21.80	0.72	0.84	0.87	0.07	0.15	0.24	0.11	17,239	30,989	20,966	18,202	6,479.00	6,474.00	6,483.00	6,444.00	2.66	4.79	3.23	2.82	24,366	26,505	28,861
LECG Corporation	-21.80	5.11	5.38	6.50	0.96	0.88	0.45	-3.37	278	345	370	336	23.41	24.35	25.12	25.33	11.88	14.18	14.75	13.25	286	325	355

## Valuation Summary

Fair Value Per Share	Weight	Fair Value	Weighted Average Price
DCF Approach	33%	16.79	5.60
P/BV Approach			
P/E Approach	33%	13.53	4.51
P/S Approach	33%	14.65	4.88
<b>Weighted Average Fair Value</b>			<b>14.99</b>
<b>Current price</b>			<b>31.96</b>
<b>Upside/(Downside)</b>			<b>-53.1%</b>

<b>Downside</b>
-47.5%
-57.7%
-54.2%

## Disclaimer

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## Endnotes: Comments and Opinions Regarding Ponzi Schemes, Pyramids and Multi-Level Marketing Systems

*Contributed by the Fraud Detection Institute*

<sup>i</sup> Date: March 7, 2009

To: XXXXXXXXXXXXXXXXXI

From: Robert L. FitzPatrick

Re: Pyramid Consequences, a follow-up to Jonathan Weil's 2001 Article on Pre-Paid Legal

XXXXXXXXXX,

You wrote a groundbreaking analysis of Pre-Paid Legal almost exactly 8 years ago for the Wall Street Journal when the SEC challenged Pre-Paid Legal's accounting in which it reported its advance commissions as assets rather than taking them as expenses when they were paid. A mandated restatement of earnings greatly lowered PPD earnings and led to a spate of lawsuits.

I wrote to you then to elaborate on PPD's business model, which was not addressed in your piece on its strange accounting. The source of the accounting irregularity and what PPD was trying to cover up with its accounting was the extraordinary attrition rate among PPD "Members" and "Associates" (salespeople who were also members) and its use of pyramid recruitment. Effectively, PPD was hiding in plain sight that it was operating a Ponzi scheme.

After your article I continued to research PPD and I was retained in one consumer class action law suit as an expert due to my general work with pyramid schemes and Ponzis, based on [my book](#) on the subject of multi-level marketing. This work allowed to me to research more carefully PPD's pyramid scheme business model and practices.

Are you now following PPD's decline?

Sadly, the SEC once again is waiting until a pyramid collapses before identifying it as a pyramid. The market, (see [5 Deathbed stocks](#)) however, helped by [investigative reports](#), of which I have been a part, is getting the picture.

Back when your article appeared, I had sent you a chart that showed that PPD had to produce a growing sales and customer base in order to keep up with the high turnover rate, which would prove impossible due to market saturation. PPD could not expand globally. It was confined to the USA and Canada by the nature of its product and it was chewing through that market.

To the chagrin of some short sellers, in the subsequent several years after your article, PPD was still able to maintain recruitment in the face of lawsuits and

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negative publicity. Over the next couple of years, publicity died down. Of course, the SEC was moribund. However, the math was undeniable and is now finally catching up with PPD, as it does with all pyramid schemes.

PPD suffers high attrition rates because it has to. That is, the market for its latest recruits salespeople is already saturated. The salespeople quit in huge numbers because they cannot succeed. Customers also quit because they are mostly friends and family of the salespeople. Nearly 2 million households have already been signed up as PPD salespeople in the US and Canada. Can you imagine this? To succeed as a salesperson, hundreds, even thousands, of new recruits are needed "below" for each of those new recruits to have a chance. Since the necessary market is not available for such expansion, all are doomed to lose. As they discover this, about half will quit the scheme within a year and 3/4ths within three years. Competitive pre-paid legal service companies, interestingly, suffer little attrition. And the product, by its nature, should not incur a high turnover. But PPD is not really selling legal services. It is selling a pyramid income scheme that uses a misrepresented product as the vehicle for camouflaging the pyramid income proposition.

Worse even than saturation which dooms the recruit, the advance payments they receive when they do make any sales (only 2% of PPD salespeople ever make even 10 sales in a year) are mostly lost when about 50% of all buyers drop the product within the first year. This triggers a huge chargeback, putting them in a deficit position. This can only be made up by recruiting others, which is impossible, as so they quit after realizing that future sales will simply go toward paying back the chargeback and those sales will only incur more chargebacks. Some consumers take longer to realize the futile treadmill they are on and so they take longer to quit the scheme.

So, the "Associates" are sold a business proposition -- to sell PPD policies and recruit other PPD Associates -- that is impossible, which is to say, fraudulent. They inevitably fail, which shows up as "attrition." In fact, this was a crime in progress, a classic ponzi scam.

PPD, by the use of extraordinary deception, has been able for the last five years or so to continue growing the base of Associates by replacing the quitters (failures) and adding some new ones too, thus maintaining the pyramid, as Bernie Madoff did for a decade.

The latest SEC filings show that the music has stopped. PPD lost many more Associates than it recruited. This means that the chargebacks will exceed the new revenue. Its ability to outpace chargebacks with new revenue from new recruits plus "unclaimed" commissions are what PPD lived off up to now. Enough new credits covered the losses in losses from advance payments. Additionally, the company has benefited from selling a product worth only \$85 for \$300. The 48 law firms that deliver PPD's service only get less than one-third the premium. The company pays another third to the recruiters and keeps the rest. So it has been cash flush, in the past, as recruiting outpaced attrition. Much of this cash was used to buy back stock, uphold the price, and enable the insiders to cash out. This cash transfer capability is coming to an end.

This all started with your article and I wondered if you were following it now?

Sincerely,

--

Robert L. FitzPatrick, Author.

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<sup>iii</sup> Excerpt from the findings of [Prof. Benjamin Fine –director, ms program in mathematics – Fairfield University:](#)

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March 10,2009

#### COMMENTS ON THE PPL FRAUD

The operation of PPL is definitely fraudulent as least in the buyer beware type of category. That is, it is definitely a pyramid scheme with very little product sold and further the probability that an “agent” will ever make any appreciable money is extremely low. I will ignore the artificially controlled stock price and the preponderance of insider trading and just concentrate on the pyramid and sales portion.

(1) Saturation Effect As with every pyramid scheme PPL must by necessity fall apart because of saturation. The amount of agents grows exponentially and quickly uses up the available population. Further the amount of people required to be approached to become agents given even a reasonable probability of sale becomes too large also. I’ll explain below.

(a) To make any money at all, disregarding sales that I’ll get into in the next comments, an “agent” must recruit at least ten agents. Given the small almost nonexistent residuals and the high dropout rate this seems like a minimum. If these ten recruit ten agents there are  $10^2$  or 100 different

agents. At level  $n$  there are then  $10^n$  agents so for example at the fifth level there are already 100,000 agents in a single person's tree. Say in a city like Norwalk, Connecticut there are only 80,000 people in the town. Given the type of people who are attracted to this they don't have the mobility to get out of the immediate area and hence the 100,000 at level 5 has used far more than is possible.

- (b) If there are 1.6 million dropped out agents – if they had stayed they would have had to recruit 10 each for 16 million agents. At the next level there would be 160 million agents or over one half of the US would have to be agents. There is no possibility that there would be 160 million PPL agents in the US.
- (2) Recruitment Saturation Effect Now ignoring the overall saturation effect think about the number of people that would have to be approached to recruit the agents.
- (a) If an “agent” approaches someone to recruit I would think that an optimistic probability of recruitment is 10%. (I believe that this is overly optimistic – think about selling anything. The probability might be more realistically at 1% or less - especially after using up his or her immediate family and acquaintances). Let's use 10% as an example.
- (b) That means they have to pitch to 10 people on average for every one they recruit. From the figures above to recruit 100,000 agents they would have had to talk to 1,000,000 people. Hence the saturation for talking to possible recruits is 10 times what is even needed to recruit. You can see that the pool of possible recruits becomes saturated even faster.
- (3) No Chance of Making Money For an individual agent there is almost no chance of making any money. For the people who make something the hourly rate must be miniscule.
- (a) From the saturation effects above no beginning agent can ever recruit enough agents to get to the pyramid residual effect. Therefore any money must come from sales.
- (b) Given the retention figures as pointed out by Robert Fitzpatrick a recruit cannot make any money from sales. Not enough people retain the policies so that they get residuals. On top of this they are tricked by the buy back policy – that is they have to pay back commissions on policies that drop out. Even if an agent realizes this and saves the necessary money the hourly rate to make the sales will never equal what is made.
- (c) To illustrate from Robert Fitzpatrick's calculations. After 3 years they only make 52% of the supposed commissions. Rather than use Robert's analysis let's assume that they realize the charge back policy and don't spend the upfront money. Hence on 100 sales after three years they made \$13,000 dollars (actually less because there will be charge backs on the remaining years) but let's ignore that for the time being. They made \$130 a sale which at first sounds good. However for the PPL product probably the sales probability is 10% or less – meaning if they make a pitch to sell PPL only 1 person in 10 will buy (probably less but let's use 10%). To get the 100 sales they'd have to pitch it to 1,000 people – the people who are selling PPL are not going to have large rooms of people to sell to). Let's say they spend an hour per actual contact – they have to explain it etc. That's 1,000 hours for \$13,000 dollars or \$13 an hour in a super best case scenario. On top of this though they have to set up interviews travel and so on so in again a best case scenario with a very aggressive hard working agent we're looking at minimum wage basically – not what PPL is advertising. In a more realistic setting they can't get to the 1,000 potentials and the sales probability is lower than 10%.